

APPENDIX

Revenue Act of 1934, c. 277, 48 Stat. 680:

SEC. 22. GROSS INCOME.

* * * * *

(b) *Exclusions from Gross Income.*—The following items shall not be included in gross income and shall be exempt from taxation under this title:

* * * * *

(2) *Annuities, Etc.*—* * *

Amounts received as an annuity under an annuity or endowment contract shall be included in gross income; except that there shall be excluded from gross income the excess of the amount received in the taxable year over an amount equal to 3 per centum of the aggregate premiums or consideration paid for such annuity (whether or not paid during such year), until the aggregate amount excluded from gross income under this title or prior income tax laws in respect of such annuity equals the aggregate premiums or consideration paid for such annuity. * * *

* * * * *

Treasury Regulations 86, relating to the Revenue Act of 1934:

ART. 22 (b) (2)–2. *Annuities.*—Amounts received as an annuity under an annuity or endowment contract include amounts received in periodical installments, whether annually, semiannually, quarterly, monthly,

or otherwise, and whether for a fixed period, such as a term of years, or for an indefinite period, such as for life, or for life and a guaranteed fixed period, and which installments are payable or may be payable over a period longer than one year. * * * As soon as the aggregate of the amounts received and excluded from gross income equals the aggregate premiums or consideration paid for such annuity, the entire amount received thereafter in each taxable year must be included in gross income. The provisions of this article may be illustrated by the following examples:

Example (1).—A bought in 1933, for \$50,000 consideration, a life annuity, payable in annual installments of \$5,000. For the calendar year 1934 he would be required to include in gross income \$1,500 of the \$5,000 received during that year (3 percent of \$50,000), \$3,500 being exempt. If A should live long enough to receive as exempt \$50,000, then all amounts he has received thereafter under the annuity contract would be included in gross income.

* * * * *

Congressional Committee Reports, relating to
Section 22 (b) (2) of the Revenue Act of 1934:

H. Rep. No. 704, 73d Cong., 2d Sess., p. 21:

SECTION 22 (b) (2). Annuities, etc.: The present law does not tax annuities arising under contracts until the annuitant has received an aggregate amount of payments equal to the total amount paid for the annuity. Payments to annuitants are, in fact, based upon mortality tables which purport to reflect a rate of return sufficient to enable the annuitant to recover his cost and in ad-

dition thereto a low rate of return on his investment. The change continues the policy of permitting the annuitant to recoup his original cost tax-free but requires him to include in his gross income a portion of the annual payments in an amount equal to 3 percent of the cost of the annuity. While the percent used is arbitrary, it approximates the rate of return in the average annuity.

Statistics show that an increasing amount of capital is going into the purchase of annuities, with the result that income taxes are postponed indefinitely. The change merely places the return of this form of investment on the same basis as other forms of investment by taxing that portion of each payment which in fact constitutes income.

S. Rep. No. 558, 73d Cong., 2d Sess., p. 23:

SECTION 22 (b) (2). *Annuities*.—The present law does not tax annuities arising under contracts until the annuitant has received an aggregate amount of payments equal to the total amount paid for the annuity. Payments to annuitants are, in fact, based upon mortality tables which purport to reflect a rate of return sufficient to enable the annuitant to recover his cost, and in addition thereto, a low rate of return on his investment.

The House bill continues the policy of permitting the annuitant to recoup his original cost tax-free but requires him to include in his gross income a portion of the annual payments in an amount equal to 3 percent of the cost of the annuity. While your committee is in agreement with the change made by the House, it was thought advisable to continue the policy of not taxing any por-

tion of the amount received from an annuity until the aggregate amount of payments equal the total amount paid for the annuity in cases where the aggregate amount received by the annuitant from all his annuities is not more than \$500. The following example illustrates the change made:

Example: "A", an individual, received during the calendar year the following amounts from annuities: annuity no. 1, \$450; annuity no. 2, \$300; and annuity no. 3, \$150. In the case of annuity no. 1, "A" prior to 1934 received aggregate payments equal to the aggregate premiums paid. In the case of annuity no. 1, "A" reports the entire amount of the annuity because all of his capital has been returned. In the case of annuity no. 2 and annuity no. 3, "A" is required to include in gross income 3 percent of the consideration paid for each such annuity. The \$500 exemption will not apply in such a case because the total annuity payments received by "A" during the taxable year exceed that amount.

H. Conference Rep. No. 1385, 73d Cong., 2d Sess., p. 17:

Amendment no. 14: The House bill requires an annuitant to include in his gross income a portion of the annual receipts in an amount equal to 3 percent of the cost of the annuity. The Senate amendment excepts from the House change persons whose aggregate receipts from annuities in the year do not exceed \$500, and makes some minor changes in phraseology. The House recedes with an amendment rejecting the \$500 exception.